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A review of the fiscal practices and policies of the Smithsonian Institution conducted in early 1977 showed that there was a need to strengthen their financial accountability to the Congress. A report issued in September 1977 concluded that the Smithsonian had adopted adequate procedures for management of cash in its private funds and had been generally successful in keeping non-interest bearing checking account balances at minimum levels in consonance with daily operating needs. Criticisms of certain Smithsonian practices reported in March 1977 can be attributed for the most part to the failure of the Smithsonian to adequately inform the Congress of its planned use of funds, both Federal and private, and of its methods of operations. The problems could have been avoided if there had been free and open dialogue with the concerned congressional committees. Smithsonian officials are now taking steps to keep the Congress better informed. The Smithsonian staff has prepared a preliminary draft of a policies and procedures statement governing the use of appropriated and trust funds which will be presented to the Secretary of the Smithsonian Institution and to the Board of Regents for approval. The Smithsonian included in its fiscal year 1979 appropriation request detailed estimates of trust fund receipts and planned expenditures. (SC)

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STATEMENT OF
WILLIAM J. ANDERSON, DEPUTY DIRECTOR
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BEFORE THE
SUBCOMMITTEE ON GOVERNMENT ACTIVITIES
AND TRANSPORTATION
COMMITTEE ON GOVERNMENT OPERATIONS
AND
SUBCOMMITTEE ON LIBRARIES AND MEMORIALS
COMMITTEE ON HOUSE ADMINISTRATION
ON
SMITHSONIAN INSTITUTION

Mr. Chairmen and Members of the Subcommittees:

We are glad to appear at your request to discuss findings contained in two reports we issued in 1977 on the Smithsonian Institution.

Our work at the Smithsonian in 1977 was done at the request of the Senate Appropriations Subcommittee on the Department of the Interior and Related Agencies. In March 1977, we reported to the Chairman and Ranking Minority Member of the Senate Appropriations Subcommittee on the results of our review of the

Smithsonian's fiscal practices and policies and concluded there was a need to strengthen the Smithsonian's financial accountability to the Congress. Last month we reported to the Senate Appropriations Subcommittee on the Smithsonian's banking practices for its private funds. We concluded in that report that the Smithsonian has adopted adequate procedures for management of cash in its private funds and has been generally successful in keeping non-interest-bearing checking account balances at minimum levels in consonance with daily operating needs.

I would like to point out that our criticisms of certain Smithsonian practices reported in March 1977 can be attributed for the most part to a general Smithsonian shortcoming--the failure to adequately inform the Congress of its planned use of funds, both Federal and private, and its methods of operations. Had there been a free and open dialogue with the cognizant congressional committees, the problems could have been avoided. Smithsonian officials acknowledge that things could have been done differently and are taking steps to keep the Congress better informed.

With those preliminary remarks, Mr. Chairman, I would like to proceed with a discussion of the specific problems we reported on.

NEED TO STRENGTHEN FINANCIAL ACCOUNTABILITY TO THE CONGRESS

We perceived three specific problems: (1) the avoidance of restrictions on the use of appropriated funds by channeling such

funds to private, nonprofit corporations, (2) the reprogramming of appropriated funds among budgetary line items without congressional approval, and (3) the need to inform the Congress of the planned use of private funds.

Use of private corporations

The Smithsonian established the Smithsonian Research Foundation--a private, nonprofit corporation--to disburse appropriated funds. Funds channeled through the Foundation were treated as private funds by the recipients and spent without regard to restrictions, such as civil service laws and fiscal year limitations, governing the use of appropriated funds.

The Foundation's Board of Directors was composed entirely of Smithsonian officials appointed by the Secretary of the Smithsonian Institution, who was Chairman of the Board and President of the Foundation. He appointed all other officers of the Foundation and the Board of Directors.

The stated purpose of the Foundation was to cooperate with the Smithsonian in encouraging, sponsoring, aiding, or conducting scientific research; studies in education, the arts, and the humanities; training persons in any of these areas; and making gifts, grants, contracts, for any of these purposes. However, the Foundation had only three employees and its actual functions were set out in annual agreements between the Foundation and various bureaus of the Smithsonian. The agreements provided

essentially for the Foundation to do no more than disburse funds and maintain records.

The Foundation served, in practice, no function of consequence other than as a mechanism for converting Federal funds into private money. The Smithsonian did not adequately inform the Congress or obtain its approval to establish the Foundation and operate independent of civil service laws and fiscal year limitations. In our opinion the Smithsonian should not have used funds channeled through the Foundation in a way that it clearly could not if it spent the funds directly.

The Smithsonian incorporated the Smithsonian Science Information Exchange in June 1971 as a private, nonprofit corporation in the District of Columbia. It was organized to facilitate effective planning, management, and coordination of scientific research activities sponsored by governmental and private agencies and individuals, provide for exchange of information about basic and applied research projects and proposals, encourage scientific research, train persons for such activities, and make grants or contracts to accomplish any of these purposes.

The Exchange is managed by a Board of Directors. The Assistant Secretary for Science of the Smithsonian serves as Chairman, and the Secretary and two other employees of the Smithsonian are Directors. An Advisory Council of 22 members, nominated by the Chairman of the Board and appointed by the Secretary of the Smithsonian, advises the Board of Directors

regarding the Exchange's technical and scientific functions and related policy matters.

The working relationship between the Smithsonian and the Exchange has been embodied in a series of annual agreements under which the Exchange, as contractor, is to maintain the Exchange as the national repository of ongoing scientific research. The Smithsonian transfers funds appropriated by Congress for the Exchange's necessary expenses as the contract price under these agreements. Funds for the Exchange were no-year appropriations until fiscal year 1975 when they became available for obligation on only a 1-fiscal-year basis. The Exchange charges fees to both Federal and non-Federal users of its services in accordance with directives from the Congress and the Office of Management and Budget.

Appropriated funds transferred under agreements with the Smithsonian are treated as private funds in the hands of the Exchange.

Since the Exchange is a private, nonprofit corporation, it does not have to comply with Federal statutes such as fiscal year limitations and civil service and Federal procurement laws, applicable to the use of appropriated funds.

Recommendations

We recommended that the Board of Regents dissolve the Smithsonian Research Foundation and the Smithsonian Science Information Exchange and that their operations be carried out as part of the Smithsonian's regular organizational structure.

We also recommended that the Secretary:

--propose and justify to the Congress the exemptions from existing legislation the Smithsonian believes it needs to run effectively, and with a minimum of red tape, the programs now funded through the Smithsonian Research Foundation and the Smithsonian Science Information Exchange.

Actions taken

The act making appropriations to the Smithsonian for the fiscal year starting this month contained the prohibition that none of the funds shall be available to the Research Foundation.

The Foundation is being phased out and will cease operations when funds for prior approved projects have been expended. The Smithsonian has set up procedures to directly administer the research programs in-house. We were told that consideration would be given later to seeking legislative changes if significant problems are encountered under the new procedures

In regard to the Science Information Exchange, the Office of Management and Budget has asked the Smithsonian, National Science Foundation, and other interested groups for their views on whether the Exchange should become a Federal activity and merged with the National Technical Information Service in the Department of Commerce or in another department or agency. We understand that a decision has not been reached on the proposal.

Reprogramming of Federal funds without congressional approval

For years the Smithsonian set up a contingency fund from its appropriation for salaries and expenses to meet extraordinary expenses that might occur during the year. The contingency fund was established by withholding about 2 percent from some line items in the Smithsonian's final salaries and expenses budget.

Using the contingency fund and other budget reallocations resulted in some of the major budget categories and subcategories within the Salaries and Expenses appropriation receiving more and some less than the amounts the Smithsonian had allocated following congressional budget approval. The reallocated funds were all used for purposes authorized by the Salaries and Expenses appropriation. However, the approval of the Appropriations Committees was not obtained because Smithsonian officials were unsure of which budget reprogramming actions, if any, the Committees wanted to approve in advance.

Recommendation

We recommended that the Secretary:

- Continue to work with the Appropriations Committees to reach a common understanding as to the types of budget reprogramming actions the Committees wish to approve in advance.

Actions taken

The contingency fund was abolished in fiscal year 1977. In August of this year, the Chairmen of the House and Senate

Appropriations Subcommittees having oversight responsibilities for the Smithsonian budget requests, jointly issued reprogramming guidelines providing uniform up-to-date procedures expected to streamline, improve, and facilitate reprogramming actions.

The Congress needs to know how
Smithsonian private funds are to be used

The Smithsonian receives private as well as Federal financial support. Because of its dual funding, the Smithsonian has a degree of flexibility not enjoyed by Federal departments and agencies. The Smithsonian is able to undertake programs and acquire facilities with its private funds without prior congressional approval. Also private funds can and are used for the same or similar purposes as appropriated funds.

Congress receives historical information on the uses of Smithsonian private funds. However, the committees of the Congress were not furnished with information on the planned uses of Smithsonian private funds when considering appropriation requests. Without complete information on the Smithsonian's financial plans, the Congress did not know in advance the full level of program funding and could not fully assess the impact of its budgetary decisions on the activities of the Smithsonian.

Increased Federal support is the frequent byproduct of new Smithsonian undertakings, whether or not initially launched with private money. We believe the Congress needs to be fully informed of new programs and directions in a timely manner. New facilities

are sometimes donated or initially financed with private funds, but later Federal funds are requested to support them. The acquisition of the Cooper-Hewitt Museum in New York City is an example of a new Smithsonian undertaking initially planned to be financed solely with private funds but now requiring continuing Federal support. The Smithsonian had not notified the appropriate congressional committees of its intention to acquire the museum.

Recommendations

We recommended that the Board of Regents:

- Establish, in conjunction with the appropriate congressional committees, clear policies governing the use of Federal and private funds.
- Provide the Appropriations Committees with information on the planned use of private funds at the time appropriation requests are submitted.

Actions taken

The Smithsonian staff has prepared a preliminary draft of a policies and procedures statement governing the use of appropriated and trust funds. The statement will be presented to the Secretary and Board of Regents for approval.

The Smithsonian included in its fiscal year 1979 appropriation request, detailed estimates of trust fund receipts and planned expenditures.

Other actions underway

The Smithsonian Board of Regents, Audit Review Committee, appointed an outside consultant, Phillip S. Hughes, former Assistant Comptroller General, to conduct an independent study of the Smithsonian's relationship to the Federal Government. The study was to concentrate on a review and assessment of our report. That study has been completed and Mr. Hughes' report supports our recommendations and the need to improve the Smithsonian's accountability to the Congress.

The House Appropriations Committee has assigned its Surveys and Investigations Staff to examine into certain aspects of the Smithsonian Institution. The results of their work are not yet available.

SMITHSONIAN PRIVATE FUNDS BANKING PRACTICES

Last month we issued a report on the Smithsonian's banking practices. We limited our work to looking at transactions flowing through five principal accounts--two at the American Security and Trust Company, two at the Riggs National Bank, and a deposit account in the United States Treasury. We concluded that the Smithsonian had established adequate procedures and had been reasonably successful in keeping non-interest-bearing checking account balances at minimum levels in consonance with daily operating needs.

Mr. Chairmen, that concludes my statement. If you or members of the Committee have any questions we will answer them the best we can.